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Lifting Of Covid-19 Restrictions In Europe Will Be Varied And Staggered

06 Apr 2020

Europe

Political Risk

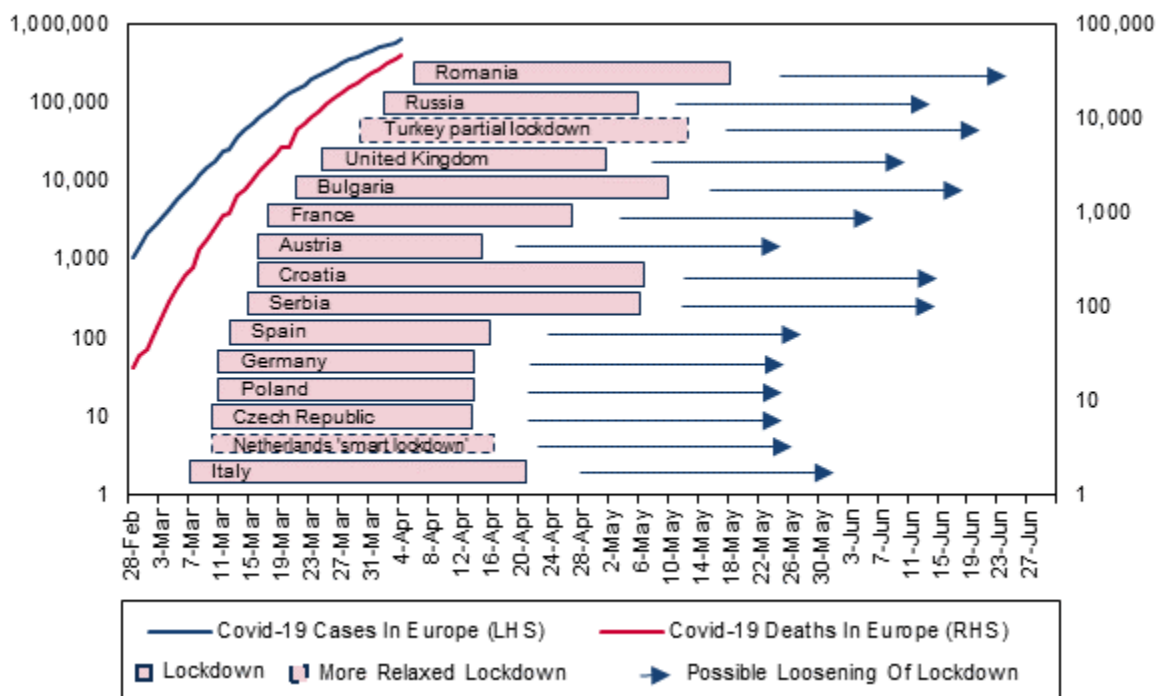
Key View

- We expect Europe will begin to gradually lift some public health restrictions from mid-April as new Covid-19 cases are starting to decelerate in key hotspots.
- Several factors will influence the timing and depth of these relaxations, including the state of public healthcare systems, capacity to test for Covid-19, and political and social contexts.
- On average, Northern European states and Austria appear set to experience aggressive lockdowns for the shortest period, while Southern and some Eastern European states will maintain them for longer.

Partial scaling down of Covid-19 lockdowns is looming closer in Europe as new cases in Italy continue to decelerate. We expect the aggressive nation-wide lockdown in the country will gradually transition to more relaxed and targeted measures, such as the 'intelligent lockdown' in the Netherlands. Spain (the second worst affected country in Europe) and most other states in the region currently appear set to follow this strategy in the coming weeks, with Austria announcing a gradual relaxation of some measures from April 14. Overall, our analysis suggests that, on average, northern European states will experience aggressive lockdowns for the shortest period, while Southern and some Eastern European countries will maintain them for longer.

Italy Faces Challenges In Lifting Lockdown, Eastern Europe Could Also Lag Behind

Europe – Covid-19 Impact And Lockdown Measures In Selected Countries



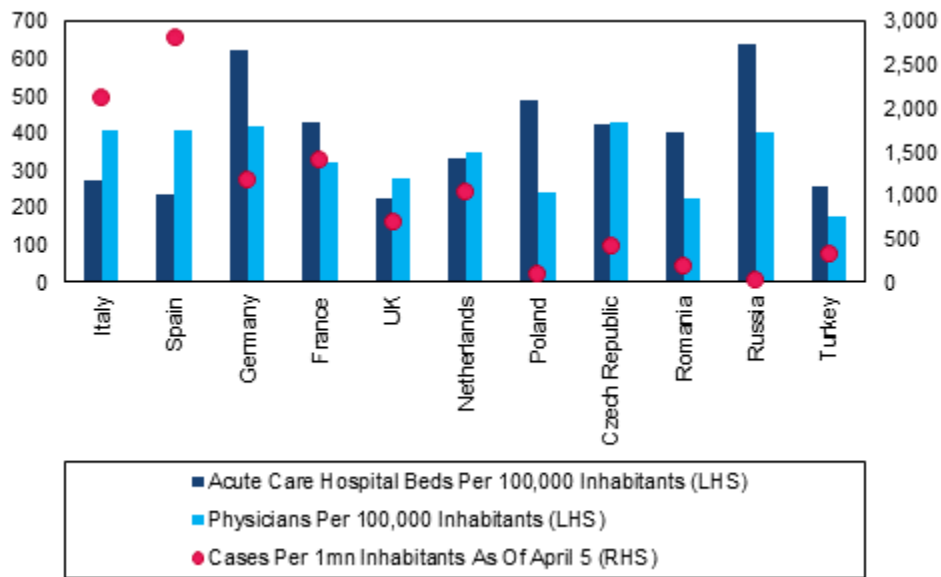
Note: The projected duration of lockdowns in each country is based on current government plans and expectations and could be extended or cut short. Source: ECDC, National Sources, Fitch Solutions

The anticipated relaxation of lockdowns will be gradual and subject to temporary reversal due to fears of a rebound in Covid-19 cases. We believe the timing of these relaxations across Europe will broadly replicate the pandemic's staggered progress in the region, from Italy and Spain to Western Europe and Central and Eastern Europe. However, a number of other factors will shape this timeline, including the disproportionate impact of the pandemic in some countries, uneven data collection, public health systems capacity, and the acceptance of local populations.

First, there are significant differences in the capacities of European healthcare systems, particularly in the number of acute care hospital beds per capita (*see chart below*). While most governments plan to begin lifting the lockdown measures around 2-3 weeks after the peak of new Covid-19 cases, better-equipped countries such as Germany will be well-placed to emerge from the pandemic quicker.

Southern Europe Suffers From Lack Of Acute Care Capacity

Selected Countries – Healthcare System Capacity Indicators, Covid-19 Cases Per Capita

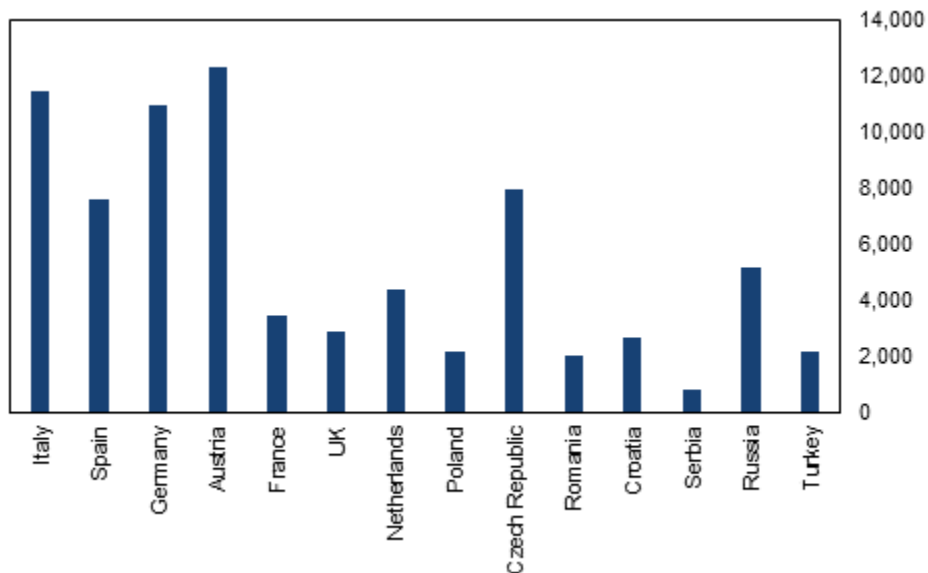


Source: WHO, World Bank, ECDC, Fitch Solutions

Second, differences in the scale of testing will also play a significant role. Testing provides critical data for governments to shift their response to areas which need it the most and grants them assurance that a relaxation of lockdown measures will not trigger a rebound of Covid-19 cases. As a result, countries with higher per-capita test rates will be quicker to gradually lift their public health restrictions, such as Austria which announced plans to do so starting from April 14.

Austria Benefits From High Covid-19 Test Rate, Others Will Struggle

Selected Countries - Covid-19 Tests Per Capita



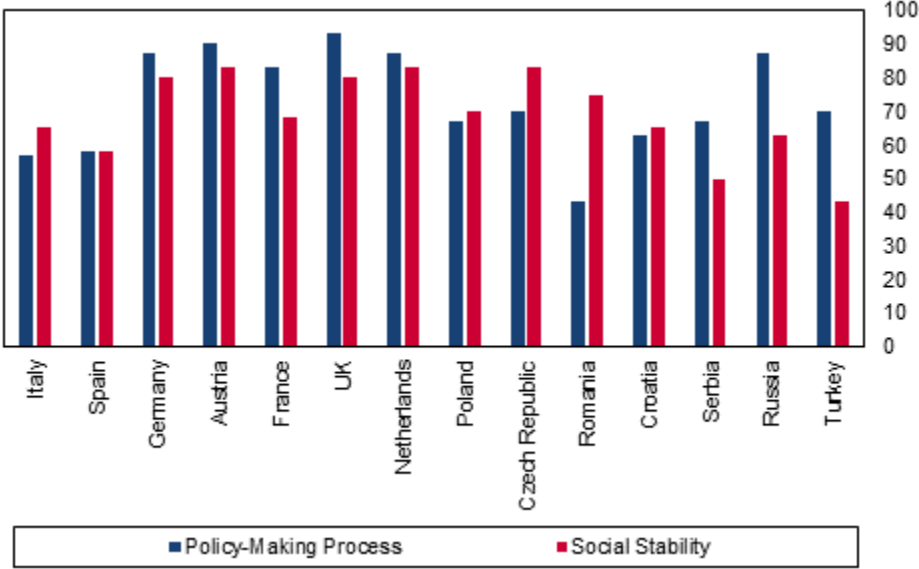
Source: John Hopkins University, ECDC, Fitch Solutions

Third, different policy priorities will also shape the timing and pace of the lifting of Covid-19-related lockdowns. Some European states adopted particularly aggressive measures in a bid to stop the outbreak, raising concerns that they will have to be particularly careful in lifting their lockdowns so as not to spread the virus to previously unexposed parts of the population. This includes most Central and Eastern European (CEE) and Balkan countries, which have been among the quickest to introduce highly restrictive lockdowns in Europe, often before registering a significant number of cases. At the same time, many of these countries have very low test rates, meaning some governments will prefer to err

on the side of caution and maintain public health restrictions for longer. **The upcoming Easter holiday will further complicate matters** as it is highly celebrated in CEE and Balkan states (on April 13 in predominantly Catholic states, April 20 in Orthodox countries), particularly in rural areas, and creates a one-off risk of spreading the virus.

Fourthly, governments will need to maintain acceptance from local populations for the lockdowns even as they are gradually phased out. While the lockdowns have been broadly well-respected and enforced, we expect many governments will struggle to clearly communicate exactly how the phasing out will take place to their respective populations. This adds to the risk of a temporary rebound in Covid-19 cases and possible re-imposition of public health restrictions, whilst simultaneously incentivising governments to maintain the restrictions in place for longer to avoid taking this risk. We expect this trend will be more pronounced in countries with a low score in the Policy-Making Process and Social Stability components of our Short-Term Political Risk Index.

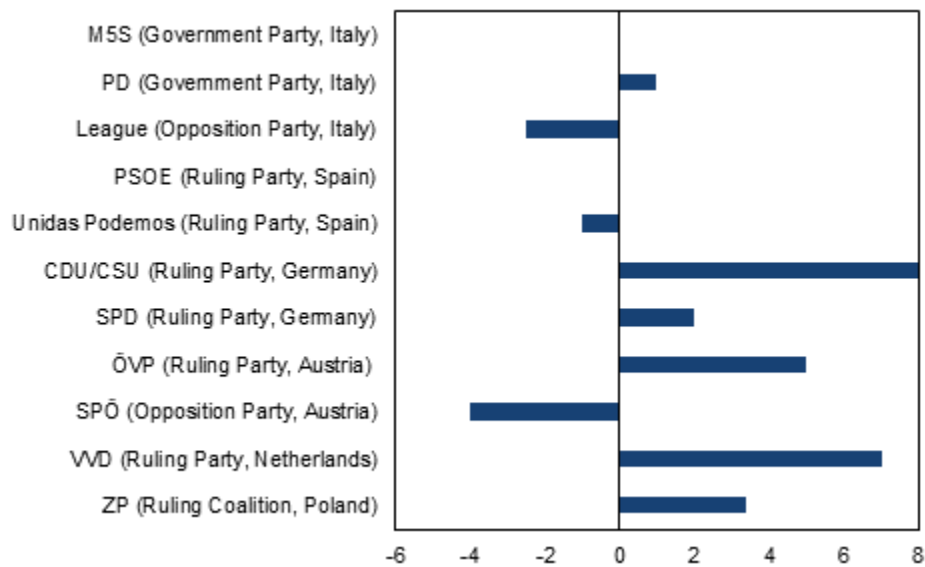
Southern And Eastern Europe Will Feel Dilemma Of Lifting Covid-19 Restrictions Most Acutely
 Selected Countries – Policy-Making Process, Social Stability Scores



Source: Fitch Solutions

Decisions around these dynamics will have political and economic implications. Greater duration and uncertainty of the restrictions would weigh down on economic growth and deepen the recessions likely to be experienced by most European states. A number of political parties have improved in opinion polls since the outbreak of the crisis, notably including a large number of ruling parties in an apparent ‘rallying around the flag’ effect. However, there are some exceptions, such as in Spain.

Covid-19 Pandemic Has Uneven Impacts On Political Support
 Selected Parties - Change In Opinion Polls Since Lockdown



Source: National Pollsters, Fitch Solutions.

These will likely feed into the policy response in the coming months, possibly including [Spanish plans to introduce some form of a universal basic income](#). At the same time, there is a risk of backsliding on democracy, where the Hungarian government has been criticised for allegedly using its newly-gained emergency powers to classify controversial contracts and clamp down on opposition parties' finances. The need for greater testing and monitoring of the population for signs of spreading Covid-19 also justifies greater surveillance powers and could be mis-used by ruling parties in states with a weak rule of law.

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